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Report on the activities of the Office of Internal Oversight Services

Report of the Office of Internal Oversight Services on the audit and investigative reviews of the tsunami relief operations conducted by the United Nations Secretariat, funds and programmes and specialized agencies

Summary

Request by the General Assembly

Pursuant to General Assembly resolution 60/259, the Office of Internal Oversight Services (OIOS) is presenting its report regarding the audits and investigative reviews of the tsunami relief operations conducted by the United Nations Secretariat, funds and programmes and specialized agencies. The report also summarizes the results of the activities of OIOS to oversee the tsunami relief operations; discusses the general assessment by OIOS of the internal control and risk management frameworks relative to tsunami relief efforts and highlights areas of concern regarding the oversight of complex inter-agency programmes being implemented by a number of agencies of the United Nations system.

OIOS was not able to finalize an agreement on preparing a consolidated report because the funds and programmes and specialized agencies stated that they could not share their internal audit reports, which were restricted to their respective management and governing bodies in accordance with their mandates.

Efforts of the Office of Internal Oversight Services to coordinate a consolidated report

The efforts of OIOS to coordinate with peer oversight offices to develop a consolidated audit approach concerning tsunami relief activities began in May 2005. Those efforts were intensified following the adoption of General Assembly resolution 60/259 of 8 May 2006. In January 2006, and again in June 2006, the Under-Secretary-General for Internal Oversight Services formally requested the Secretary-General to seek the cooperation of the heads of funds and programmes and specialized agencies in preparing a consolidated report on tsunami relief activities, as

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required in paragraph 14 of the resolution. In response to the OIOS request made in January 2006, the Secretary-General welcomed the initiative for a consolidated report but stated that he had requested the Board of Auditors to lead a comprehensive horizontal review of the activities of the United Nations system in the aftermath of the tsunami. OIOS did not receive feedback on its June 2006 request.

In commenting on the draft of the present report on behalf of the Secretary-General, the Deputy Secretary-General indicated that a number of funds and programmes had expressed the view that their tsunami activities had already been extensively audited and that a further consolidated report would be superfluous. The Deputy Secretary-General also stated that it was understood that the various United Nations entities would provide relevant audit information within the confines of the rules and regulations of their governing bodies. Notwithstanding those comments, OIOS interaction with the representatives of the audit entities of the funds and programmes and specialized agencies showed that, while they were willing to participate in the consolidated reporting on tsunami relief activities, to achieve that participation there was a need for communication from the Secretary-General to the executive heads of the respective agencies and funds and programmes, requesting such cooperation.

OIOS wishes to emphasize that the General Assembly, in its resolution 60/259, requested the Secretary-General to ensure that the funds and programmes and specialized agencies cooperate with OIOS in preparing a consolidated report on audits and investigative reviews undertaken of the tsunami relief operation. *The Deputy Secretary-General stated, in commenting on the draft of the present report, that he had understood that relevant audit information was effectively shared without any further instructions from the Secretary-General, nor was a discussion with the concerned governing boards and Member States on rules governing the sharing of audit information needed.* OIOS regrets that the information was not readily available to OIOS, as suggested by that comment. If it indeed had been, it could have given OIOS the opportunity to present a more compelling case for a global internal audit of tsunami relief activities, as discussed in the present report.

Overarching problems in oversight coordination

The General Assembly, in its resolution 48/218B of 29 July 1994, requested the Secretary-General to report on methods by which OIOS could assist the funds and programmes in their oversight mechanisms. The Secretary-General submitted reports to the General Assembly on the subject in 1997, 2001 and 2002. The General Assembly took note of those reports and in 2002 reaffirmed the prerogatives of the funds and programmes to decide their own oversight mechanisms and their relationship with OIOS. There was no further determination by the General Assembly regarding how the mechanisms for cooperation between the internal audit divisions of the funds and programmes and OIOS, and consolidation of oversight work, could be made more effective. Therefore, there was no established protocol or coordination mechanism for sharing oversight information that could be used by the various entities of the United Nations system. *In commenting on the present report on behalf of the Secretary-General, the Deputy Secretary-General indicated that the Secretary-General, on a number of occasions, confirmed the importance of collaboration among the oversight bodies of the various entities of the United Nations system.*

Internal control framework

The Organization's efforts to manage tsunami relief activities included the establishment of several mechanisms to ensure accountability, including: (a) a common financial tracking system to account for donor contributions and their use; (b) a coordinated procedure for monitoring and evaluating programmatic performance; (c) independent oversight of the management of tsunami programmes by the Board of Auditors and other oversight entities; and (d) systems and activities to promote risk management, transparency and accountability.

However, as discussed in the present report, OIOS found that the design of some of those mechanisms needed to be refined. For example, expenditure tracking had not been planned to present a comprehensive and adequate picture of resource utilization. Furthermore, while the consulting firm of PricewaterhouseCoopers, which agreed to provide pro bono services to strengthen funds management, made several contributions, in the view of OIOS, its time could have been better utilized by first identifying critical needs by conducting an integrated risk assessment of all participating agencies and assisting them in dealing with the high-risk areas identified.

In the opinion of OIOS, an internal control policy for the United Nations system which makes the commitment to transparency and accountability fully effective should be formulated by the Secretary-General and submitted to the General Assembly for approval. The policy should set out the different components of internal control, management's responsibility for controlling the operations of the Organization, the activities management should undertake to fulfil those responsibilities and its accountability in the use of public resources. Such a policy should also include requirements for joint oversight.

Risk management

OIOS noted that several agencies have implemented their own mechanisms to reduce the level of vulnerability to fraud and corruption in their programmes. Furthermore, several conferences have highlighted the international community's concern with the issues of transparency, strengthening safeguards against corruption and ensuring effective project implementation to meet the needs of the affected population. However, no common risk management policy has been formulated by the management of the Secretariat, funds and programmes and specialized agencies and approved by the General Assembly. Therefore, efforts to identify and manage risks were taking place in a piecemeal rather than an integrated manner.

An integrated risk management framework covering complex inter-agency programmes involving participation by various entities of the United Nations system needs to be implemented. That framework should delineate management's responsibility for dealing with uncertainty and associated risks and opportunities, defining the major risk categories, outlining the elements of effective risk management and explaining the key principles and tools to identify, measure and control risk.

The oversight activities of the Office of Internal Oversight Services

Oversight by OIOS of tsunami relief activities has included an audit of the Office for the Coordination of Humanitarian Affairs in Indonesia, the Office of the

United Nations High Commissioner for Refugees (UNHCR) in Indonesia and a risk assessment of UNHCR in Sri Lanka. Based on those oversight activities, OIOS made a number of recommendations for improving related programmes. Most of those recommendations have been implemented. Also, in April 2005, OIOS submitted to the Secretary-General a report concerning an investigation of the risks of fraud and violation of United Nations Staff Regulations and Rules in the tsunami disaster relief programmes in Jakarta and the Aceh province of Indonesia. OIOS also participated in several conferences regarding corruption prevention, financial accountability in tsunami relief operations and managing socio-economic damage following a natural disaster, which helped to prepare OIOS in carrying out its assessment missions in Indonesia, Sri Lanka, Thailand and Maldives and in developing an in-depth understanding of the issues surrounding the tsunami relief effort.

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I. Introduction

1. In its resolution 60/259 of 8 May 2006, the General Assembly requested the Secretary-General to: (a) ensure that the United Nations funds and programmes and the specialized agencies cooperate with the Office of Internal Oversight Services (OIOS) in preparing a consolidated report on audits and investigative reviews undertaken of the tsunami relief operation; and (b) entrust OIOS to report thereon to the General Assembly at its sixty-first session.

2. The primary objective of OIOS was to prepare a consolidated report covering its audits and investigative reviews and those carried out by the Secretariat, funds and programmes and specialized agencies. As discussed below, to fulfil that objective OIOS met extensively with representatives of these entities, exchanged information on oversight activities and sought the assistance of the Secretary-General.

3. In addition to describing the efforts of OIOS to fulfil the General Assembly mandate, in resolution 60/259, the present report summarizes the results of the oversight activities of OIOS regarding tsunami relief operations. The report also discusses the general assessment by OIOS of the internal control and risk management frameworks of those operations and highlights areas of concern with respect to the oversight of complex inter-agency programmes.

II. Efforts of the Office of Internal Oversight Services to coordinate the preparation of a consolidated report

4. OIOS took the initiative in May 2005, even before the adoption of resolution 60/259, to bring together representatives of the audit entities of the United Nations funds and programmes, specialized agencies and Board of Auditors to discuss the possibility of preparing a report consolidating the results of audits of tsunami relief activities. OIOS had determined that there was a high risk that material inefficiencies could result from undetected duplications in programme and administrative processes and that audits of individual agencies would not be effective in detecting waste, losses and opportunities for efficiency gains, and in providing assurance on transparency and accountability in the receipt, allocation and use of donor contributions for the wide range of tsunami relief activities.

5. The individual agencies expressed interest in the concept of a consolidated report but repeatedly mentioned their inability to share internal audit reports because they were restricted to their respective management and governing bodies. The agencies suggested that OIOS raise the issue with the Secretary-General and stated that they could cooperate if their governing bodies agreed to a request by the Secretary-General. The meetings of OIOS with the funds and programmes, specialized agencies and Board of Auditors were helpful, however, because they involved the sharing of information relating to the respective audit plans. Cooperation with the Board of Auditors was particularly fruitful in that it permitted OIOS to distribute the audit coverage more efficiently and share the coverage of risks in the audit universe. OIOS conducted its audit of the Office for the Coordination of Humanitarian Affairs (OCHA) in Indonesia in July 2005, while the Board of Auditors conducted audits of the Office for the Coordination of Humanitarian Affairs in Sri Lanka and in Thailand in October 2005 and January

2006 respectively. OIOS and the Board of Auditors have shared the results of those and all subsequent audits.

6. Following a suggestion made by the funds and programmes and specialized agencies, in a memorandum dated 6 January 2006 the Under-Secretary-General for Internal Oversight Services, requested the Secretary-General to seek the cooperation of the heads of those entities in preparing a consolidated audit report for tsunami relief activities. The Under-Secretary-General specifically stated "that such a review would be firmly in the spirit of *One United Nations — Catalyst for Progress and Change* and it could serve as a model for any future cross-agency or whole of United Nations collaboration. While meeting the demand of accountability to the public and the donors, it would enable agencies to share good practices". The Secretary-General, in his response dated 16 January 2006, welcomed the initiative for a consolidated review of oversight of all agencies involved in tsunami relief activities and acknowledged that that "could serve as an important tool to ensure accountability in this field". The Secretary-General further stated that he had requested the Board of Auditors to lead, on behalf of the whole Panel of External Auditors, a comprehensive horizontal review of the activities of the United Nations system in the aftermath of the tsunami. He therefore trusted "that the reviews conducted by OIOS and the Board of Auditors will be undertaken in close coordination". In view of that, he did not take up the OIOS request with the heads of the entities to direct their internal audit divisions to cooperate in preparing a consolidated audit report.

7. The Under-Secretary-General for Internal Oversight Services again raised the issue with the Secretary-General in June 2006. The Under-Secretary-General, while referring to draft resolution A/C.5/60/L.33, stated that initial contacts between OIOS with the heads of internal oversight services of the agencies involved in the tsunami relief operations showed their willingness to participate in the consolidated reporting requested by the General Assembly. However, the heads of the oversight services indicated that to achieve that participation, the Secretary-General must request the executive heads of the respective agencies and funds and programmes to cooperate. The Under-Secretary-General therefore requested the Secretary-General to send a letter to the executive heads of the major agencies and programmes but he did not respond to that request.

8. OIOS agreed that the Board of Auditors' comprehensive review would provide a valuable assessment of the United Nations system's tsunami relief activities. In the view of OIOS, however, a joint assessment of the design and functioning of internal controls in tsunami relief programmes by the United Nations system's internal audit entities would aim to identify obstacles to obtaining a comprehensive picture of the United Nations system performance and at providing a more homogeneous basis for the Board of Auditors' overall assessment. Furthermore, such an exercise would add significant value by providing an opportunity for United Nations internal oversight entities to strengthen and harmonize their audit approaches, including risk assessment methodologies, audit strategies and procedures.

9. OIOS raised the issue of a consolidated report on tsunami relief activities at the meeting of the representatives of internal audit services of the United Nations organizations and multilateral financial institutions, held in November 2005. The meeting brought together representatives of the audit entities of the United Nations Secretariat, funds and programmes and specialized agencies and multilateral

financial institutions to discuss a wide range of issues, including opportunities for improving cooperation and coordination among the internal audit services, sharing best practices and adopting common standards, approaches and methodologies. The participants at the 2005 meeting shared information on the progress made on tsunami audits and agreed in principle to the need for a consolidated report. However, the participants noted that there were issues concerning governance and their individual mandates which needed to be resolved.

10. Pursuant to General Assembly resolution 60/259, in which the General Assembly requested OIOS to submit a consolidated report on tsunami relief operations, OIOS organized a meeting on 14 July 2006 with the heads of audit agencies of the funds and programmes and specialized agencies to again discuss cooperation in preparing a consolidated audit report on tsunami relief activities. The Secretariat, the Board of Auditors, the United Nations Children's Fund (UNICEF), the United Nations Development Programme (UNDP), the Food and Agriculture Organization of the United Nations, the United Nations Population Fund (UNFPA) and the World Food Programme (WFP) were represented at the meeting. The need for the Secretary-General to obtain the prior approval of the executive heads of funds and programmes and specialized agencies was reiterated by all the entities represented at the meeting. The representative of the Board of Auditors explained that the Board's reports on UNDP,[1] the Office of the United Nations High Commissioner for Refugees (UNHCR),[2] the Office for the Coordination of Humanitarian Affairs (OCHA),[3] UNICEF[4] and UNFPA[5] would contain the results of the Board's audits of tsunami relief activities undertaken by those organizations. Moreover, the Board has issued a concise summary of its audits of the above entities and the United Nations Environment Programme and the United Nations Human Settlements Programme (UN-Habitat) in its report to the General Assembly (A/61/182). The Board's representative also advised that in addition to its reports, the Panel of External Auditors was preparing a report on tsunami relief operations covering the Secretariat, funds and programmes and specialized agencies. However, the format and clearance procedures of the Panel's report were still under consideration.

11. The report by OIOS to the General Assembly on its activities covering the period 1 July 2005 to 30 June 2006 (A/61/264 (Part I)) contained a discussion of its efforts to coordinate, with peer oversight offices, the preparation of a consolidated report. OIOS noted that the internal audit units of the funds, programmes and specialized agencies have stated that further discussions on cooperation can be pursued only if a letter suggesting such cooperation is sent by the Secretary-General to the heads of those entities. OIOS has drawn the Secretary-General's attention to the fact that without his intervention, OIOS cannot make progress on the issue and would not be able to report to the General Assembly in accordance with the mandated request.

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[1] *Official Records of the General Assembly, Sixty-first Session, Supplement No. 5A* (A/61/5/Add.1).

[2] Ibid., *Supplement No. 5E* (A/61/5/Add.5).

[3] Ibid., *Supplement No. 5* (A/61/5).

[4] Ibid., *Supplement No. 5B* (A/61/5/Add.2).

[5] Ibid., *Supplement No. 5G* (A/61/5/Add.7).

12. *In commenting on the draft of the present report on behalf of the Secretary-General, the Deputy Secretary-General indicated that a number of funds and programmes had expressed the view that their tsunami activities had already been extensively audited and that a further consolidated report would be superfluous. The Deputy Secretary-General also stated that it was understood that the various entities of the United Nations system would provide relevant audit information within the confines of the rules and regulations promulgated by their governing bodies.* OIOS interaction with the representatives of the audit entities of the funds and programmes and specialized agencies, as discussed in paragraphs 5 to 10 above, does not confirm those views. The *Deputy Secretary-General also stated that he had understood that relevant audit information was effectively shared without any further instructions from the Secretary-General and that a discussion with the concerned governing boards and Member States on rules governing the sharing of audit information was unnecessary.* OIOS, however, regrets that the information was not readily available, as suggested by that comment. If it indeed had been, it could have given OIOS the opportunity to present a more compelling case for a global internal audit of tsunami relief activities, as discussed in the present report.

III. Overarching problems in oversight coordination

13. The General Assembly, when it created OIOS in 1994 by its resolution 48/218 B of 29 July 1994, requested that the Secretary-General submit to the Assembly, at its forty-ninth session, following consultations with the executive boards of the United Nations operational funds and programmes, a detailed report containing recommendations on the implementation of the resolution as it pertained to the internal oversight functions of such funds and programmes, including methods by which OIOS could assist such funds and programmes in enhancing their oversight mechanisms. In response to that request, in his report (A/51/801) the Secretary-General recommended that: (a) regular monthly meetings be held among the heads of oversight units of funds and programmes and OIOS; (b) OIOS compile a report of summary records on internal oversight issues of each operational fund and programme to provide a comprehensive overview of improvements achieved and areas of concern to be addressed in the United Nations system; and (c) OIOS have the authority to seek and obtain any relevant information, specific or general, from the internal oversight entities or the executive heads concerned. In its resolution 54/244 of 23 December 1999, the General Assembly requested the Secretary-General to further update the information contained in the report of the Secretary-General.

14. In subsequent reports, the Secretary-General recommended that each fund and programme have an oversight committee with appropriate representation from OIOS in order to strengthen information exchange and coordination on internal oversight (A/55/826). In its resolution 55/259 of 14 June 2001, the General Assembly requested that the Secretary-General further update the General Assembly on the issue at its fifty-sixth session. In his report to the General Assembly (A/56/823), the Secretary-General stated that OIOS was seeking representation on the audit committees of those entities for which it did not provide audit services. In its resolutions 57/287 A and B of 20 December 2002, the General Assembly took note of the recommendations contained in the report of the Secretary-General and reaffirmed the prerogatives of the funds and programmes to decide their own

oversight mechanisms and their relationship with OIOS. There was no further determination by the General Assembly on how the mechanisms for cooperation between the internal audit divisions of the funds and programmes and OIOS, and consolidation of oversight work, could be made more effective. As noted in its reports (A/54/393 and A/57/451), OIOS had promoted the enhancement of internal oversight in the operational funds and programmes, primarily by providing direct investigative and audit services to several organizations. However, little progress had been made in establishing a formal oversight coordination mechanism. Hence, the individual agencies, while expressing interest in the concept of a consolidated report, repeatedly mentioned their inability to share internal audit reports, which were restricted to their respective management and governing bodies.

15. *In commenting on the present report on behalf of the Secretary-General, the Deputy Secretary-General indicated that the Secretary-General, on a number of occasions, had confirmed the importance of collaboration among the oversight bodies of the various entities in regard to tsunami activities.*

IV. Internal control framework

A. Ensuring coordinated execution of tsunami operations

16. The Secretary-General responded to the tsunami disaster and the intensified need for coordination among the organizations of the United Nations system, non-governmental organizations (NGOs) and the international donor community by immediately appointing the Deputy Emergency Relief Coordinator of OCHA to serve as the Special Coordinator for humanitarian assistance to tsunami-affected communities. The Special Coordinator provides leadership and support to the United Nations country teams to facilitate the delivery of international assistance, through high-level consultations with the Governments concerned. The Secretary-General also appointed former United States President William Jefferson Clinton as the Special Envoy for Tsunami Recovery in order to help sustain global political will in the recovery effort.

17. On behalf of the United Nations system and NGOs, OCHA launched a flash appeal for tsunami relief operations on 6 January 2005, which has raised $1.1 billion in contributions. The Office of the Secretary-General's Special Envoy for Tsunami Recovery estimated that a total of $13.02 billion (including the flash appeal amount) had been pledged, from a variety of international sources, for both the relief and reconstruction phases. The structure of pledges and their allocation by implementing entity (United Nations, NGO, Government and implementing partner) is set out in the table below.

Distribution and allocation of pledges (international funding) for tsunami relief and reconstruction

Donor type	*Pledges (billions of United States dollars)*	*Percentage of pledges*
Governments (including the European Union)	5.9	45
International financial institutions	2.1	16
Private individuals and companies	5.0	38
Various un-earmarked United Nations funds, transfers within the United Nations and pledges from unspecified donors	0.02	1
Total	**13.02**	**100**

Allocation of pledges	*Amount (billions of United States dollars)*	*Percentage of pledges*
Organizations of the United Nations system	1.4	10
NGOs and International Federation of Red Cross and Red Crescent Societies[a]	5.5	42
Affected Governments[b]	2.1	16
Implementing partners[c]	4.2	32
Total	**13.02**	**100**

Source: Estimated figures compiled by the United Nations Office of the Special Envoy for Tsunami Recovery.

[a] Flash appeal included.

[b] Funds from international financial institutions.

[c] Bilateral funding for country recovery plans.

18. United Nations organizations implementing programmes for tsunami relief include entities in the United Nations Secretariat, funds and programmes and specialized agencies. The Secretariat departments involved in tsunami relief activities are managed by a department head on behalf of the Secretary-General and are governed by and accountable to the General Assembly. The funds and programmes are managed by their executive heads and governed by and accountable to their executive boards or governing councils. However, they are also accountable to the Economic and Social Council and, through the Council, to the Assembly. The specialized agencies are autonomous and managed by their executive heads and are governed by and accountable to their executive boards or governing councils. Article 57 of the Charter of the United Nations, read in conjunction with Articles 58 and 63, empowers the Council and the Assembly to coordinate the policies and activities of the specialized agencies through consultation and to enter into agreements with the specialized agencies, defining the terms of their relationship with the United Nations. In the opinion of OIOS, the Charter provides an overall framework through the Council and the Assembly, to enable a coordination mechanism for the tsunami programmes at the governance level.

B. Fulfilling accountability obligations

Commitment to transparency and accountability

19. In response to requests from the General Assembly, the Secretary-General submitted reports in 2005 and 2006 on strengthening emergency relief, rehabilitation, reconstruction, recovery and prevention in the aftermath of the Indian Ocean tsunami disaster (A/60/86-E/2005/77 and A/61/87-E/2006/77) and on strengthening of the coordination of emergency humanitarian assistance of the United Nations (A/60/87-E/2005/78). Those reports recognized the need for improving the transparency of operations and accountability to stakeholders, including financial tracking and reporting, monitoring and evaluation. The second report of the Secretary-General on strengthening emergency relief, rehabilitation, reconstruction, recovery and prevention in the aftermath of the Indian Ocean tsunami disaster stresses that "financial transparency alone, though, is not sufficient to guarantee accountability; audits, evaluations and monitoring are also critical" (see A/61/87-E/2006/77, para. 65). The report also notes that the Tsunami Evaluation Coalition, which represents a broad coalition of United Nations agencies, donors, NGOs and the International Federation of Red Cross and Red Crescent Societies, has conducted sector-wide evaluations in five thematic areas. Furthermore, the Tsunami Recovery Impact Assessment and Monitoring System will monitor progress and impact, with the participation of the Governments of the five most affected countries, United Nations agencies, the International Federation of Red Cross and Red Crescent Societies, NGOs and donors, using an agreed set of common indicators and specific country indicators.

20. In the view of OIOS, the Organization's commitment to transparency and accountability has been reflected through four major initiatives: (a) the establishment of a common financial tracking system to account for donor contributions and their use; (b) a coordinated procedure for the monitoring and evaluation of programmatic performance; (c) independent oversight by the Board of Auditors and oversight entities of the management of tsunami programmes by organizations of the United Nations system; and (d) systems and activities to promote risk management, transparency and accountability. However, OIOS found that the design of some of those controls needed to be refined. More importantly, the internal control policy which makes the commitment to transparency and accountability fully effective needed to be formulated in a single document and communicated to all stakeholders.

Financial tracking system

21. In the opinion of OIOS, expenditure tracking had not been planned to present a comprehensive and adequate picture of resource utilization. Strengthening and maintaining a transparent financial tracking system for both Government and private contributions were the most important components of transparency and accountability cited in the Secretary-General's reports mentioned in paragraph 19. Due to the multiplicity of funding sources and implementing agencies, distinguishing expenditures between relief and those for reconstruction activities and tracking them among United Nations agencies, NGOs and Governments posed a major challenge in terms of providing the various stakeholders with usable, timely and reliable information. The OCHA online Relief web indicated that a total of $6.2 billion had actually been contributed for tsunami relief, of which $768 million

had been spent as at August 2006. However, the expenditures recorded in the OCHA expenditure tracking system covered only the funds contributed to the flash appeal, which amounted to $1.1 billion, or 8.4 per cent of the $13.02 billion in contributions received for relief and reconstruction.

22. Most of the remaining funds ($11.92 billion; see table) were being tracked through the UNDP-funded Development Assistance Database, which is owned and managed by national Governments. To date, those financial online tracking systems are available for the programmes in Indonesia, Maldives, Sri Lanka and Thailand. Central and local governments, NGOs, United Nations agencies, and multilateral and bilateral donors input their information into the Database, which is fully accessible to the public. The Database provides information on all tsunami-related assistance projects, including location, sector, donor and implementing agency as well as project results.

23. In its report (A/61/182), the Board of Auditors highlighted a number of deficiencies in monitoring financial flows, as follows: (a) some agencies had not provided expenditure information, even though they had requested funds from the flash appeal projects; (b) some agencies had not reported on the allocation of earmarked funds to specific projects; (c) OCHA did not reconcile the expenditure tracking system statements with the financial statements of participating agencies; and (d) there were inconsistencies between the expenditure tracking system figures, the UNDP Database figures and the Banda Aceh and Nias recovery database figures. The latter database is a web-based system for collecting, tracking, analysing and displaying project and funding information. It is an essential tool for NGOs, donors and Governments to access up-to-date information on the recovery process. Furthermore, the information generated by two incompatible systems, namely, the Secretariat's Integrated Management Information System and the UNDP Enterprise Resource Planning system caused problems in the field. Most importantly, when the expenditure tracking system was conceived and agreed to by the agencies, it was not known that the Office of the Special Envoy for Tsunami operations would encourage the creation of the UNDP Development Assistance Database to track the funding and expenditures of all tsunami-related activities, including long-term reconstruction (beyond the flash appeal).

Collaboration with PricewaterhouseCoopers to strengthen reporting, oversight and risk management

24. On behalf of the Secretary-General, OCHA negotiated an agreement with PricewaterhouseCoopers to provide pro bono services to the United Nations to strengthen the systems for reporting and ensuring the accountability of funds. A steering committee, chaired by OCHA and composed of representatives of the United Nations system, including OIOS, was established in early 2005 to allocate the time of PricewaterhouseCoopers. The 8,000 direct hours of pro bono services provided by PricewaterhouseCoopers were distributed among UNICEF, UNDP, UNFPA, UN-Habitat, UNHCR, OCHA and WFP to assist in the following areas: internal audit missions, forensic data analyses, development of fraud risk controls, information technology audit, information technology security and enterprise risk management assessments, which also involved United Nations staff. PricewaterhouseCoopers also upgraded the OCHA financial tracking system to include online expenditure reporting by the United Nations system and NGOs and

conducted two cross-agency fraud and risk control training workshops in September 2005 for 80 United Nations staff members.

25. In the opinion of OIOS, although PricewaterhouseCoopers made several contributions, discussed above, its time could have been better utilized by first identifying critical needs through an integrated risk assessment of all participating agencies and by using the 8,000 hours to assist the agencies in the high-risk areas identified. That would also have ensured a comprehensive approach to addressing the risks identified.

C. Formulation of the internal control policy

26. Formulating an internal control policy to set out the different components of internal control, management's responsibility for controlling the operations of the Organization, the activities management needs to undertake to fulfil those responsibilities, and its accountability for the use of public resources, is internationally recognized as a best practice. As stated in paragraph 20, in the view of OIOS, the United Nations system management's commitment to transparency and accountability for tsunami activities needed to be formulated in a single policy document spelling out applicable rules and regulations, coordination mechanisms, reporting systems and procedures and safeguards against loss, misuse and damage, and submitted to the General Assembly and the Economic and Social Council for endorsement.

V. Risk management framework

A. Fraud risk assessment by the Office of Internal Oversight Services

27. In April 2005, the OIOS Investigations Division submitted to the Secretary-General a report concerning the risks of fraud and the violation of United Nations Staff Regulations and Rules in the tsunami disaster relief programmes in Jakarta and the Aceh province of Indonesia following a mission conducted in February and March 2005. The report noted that the two most significant risks facing the United Nations relief programme in the Aceh province were the absence of a comprehensive fraud and corruption prevention system to deal professionally and rapidly with violations of United Nations regulations and rules in that region, and the lack of effective coordination, particularly with regard to security issues. The security issues raised in the report stem from the fact that: (a) terrorist attacks occurred in Bali, Indonesia, and against the Australian Embassy in Jakarta; (b) terrorists with international links have been convicted in Indonesia for such acts; and (c) the United Nations has become a target of terrorist attacks. The report therefore concluded that it was not unreasonable to assess that the security threat to United Nations staff and its buildings in the area, although low at that time, could increase with little or no notice. An additional risk was posed by the separate housing of the various United Nations agencies operating on the ground — and each needed its own agency-specific security — with different levels of training for security officers.

28. OIOS found that the tsunami relief operation was also exposed to a high risk of fraud, corruption, waste, abuse and mismanagement of funds. Procurement was

considered to present the highest risks because of the likelihood of cartelization and monopolization being formed by major building subcontractors, allowing them to control the pricing structure through corrupt transactions. OIOS estimated that, on average, corruption costs of 10 per cent would be included in rebuilding contracts. The OIOS report made several recommendations and suggestions for risk mitigation to the Secretary-General in each of the areas considered during the assessment, namely: procurement, personnel, overall management, assets and programme matters. Several agencies have since implemented stringent controls to reduce their level of vulnerability to fraud and corruption in those areas. For example, the United Nations Office of the Recovery Coordinator for Aceh and Nias established a focal point to deal with sensitive issues of fraud and corruption within the United Nations system, and the Rehabilitation and Reconstruction Agency for Aceh and Nias established an anti-corruption unit. Also, a province-wide campaign on ethical procurement practices and anti-corruption awareness has been launched in Aceh.

B. Conferences on risk management

29. OIOS participated in the meeting on corruption prevention in tsunami relief organized jointly by the Asian Development Bank/Organization for Economic Cooperation and Development and Transparency International in April 2005 in Jakarta. The themes discussed included utilizing country ownership and participatory decision-making as means to enhance transparency in improving the transparency of aid flows, strengthening financial safeguards and administrative capacity to curb the risk of corruption, facilitating effective and transparent procurement and implementation and ensuring effective project monitoring and evaluation. OIOS also participated in the International Conference on Promoting Financial Accountability in Managing Funds Related to Tsunami, Conflict and other Disasters in April in Jakarta, and in the conference on the role of criminal justice in minimizing socio-economic damage subsequent to natural disaster and the Eleventh United Nations Congress on Crime Prevention and Criminal Justice, held in Bangkok in April 2005. Those meetings highlighted the international community's concern with the issues of transparency, strengthening safeguards against corruption and ensuring effective project implementation so as to meet the needs of the affected population. The meetings helped OIOS in carrying out its assessment missions in Indonesia, Sri Lanka, Thailand and Maldives and in developing an in-depth understanding of the issues surrounding the tsunami relief effort, which assisted in planning and implementing its oversight activities.

C. Formalization of a risk management policy

30. OIOS has observed the existence of key elements of an integrated risk management framework in tsunami relief programmes. However, in the view of OIOS, the basis for the current risk management framework has not been formally established, as a risk management policy has not yet been formulated by the Secretary-General for the United Nations system and approved by the General Assembly. Such a policy would establish a coherent methodology for managing risk. In that regard, the policy delineates management's responsibility for dealing with uncertainty and associated risks and opportunities, defines the major categories of risk, outlines the elements of effective risk management and explains the key

principles and tools to identify, measure and control risk within the risk levels indicated by the governing bodies.

VI. Summary of the audit activities of the Office of Internal Oversight Services

A. Audit of the Office for the Coordination of Humanitarian Affairs in Indonesia

31. OIOS conducted an audit of tsunami operations at OCHA in Indonesia in June and July 2005. The audit assessed OCHA coordination mechanisms and internal management practices in the areas of human resources, information management, finance, procurement, inventory and security. Based on the preliminary risk assessment of OCHA, OIOS identified a number of high-risk areas, such as programme oversight, programme management, system of linkages between headquarters and the field and human resource management.

32. Regarding coordination, OIOS found that the Secretary-General's immediate appointment of the Assistant Secretary-General for Humanitarian Affairs as the Special Coordinator for Humanitarian Assistance in tsunami-affected countries had resulted in coordination at an appropriately senior level within the United Nations system and OCHA. However, OIOS was of the view that the OCHA mandate (as stated in General Assembly resolution 46/182) relates specifically to emergency humanitarian assistance and the de facto enlargement of the role of OCHA in the recovery and reconstruction phase and that its role in relation to other agencies in that respect needed to be clarified. OIOS recommended that OCHA present that issue to the General Assembly for determination. OIOS also found that coordination between OCHA in Jakarta with the NGO and donor communities needed to be strengthened through regular meetings and adequate follow-up of such meetings.

33. Overall, the internal management of OCHA needed to be improved in the areas of information management, human resource management and security. OCHA had not articulated formal procedures to be followed by information officers in Banda Aceh and Jakarta, and there was no formal guidance for authorizing the approval and release of information. The information officers were therefore acting individually and using their experience to determine their roles, in the absence of any standards or guidelines. The core reporting mechanism to the world community, the OCHA situation report, had not been issued regularly. In fact, those reports were discontinued in April 2005 in Banda Aceh and May 2005 in Jakarta due to a lack of reporting officers in those offices. Considering that one of the primary functions of OCHA was the coordination of information, the problem needed to be addressed.

34. The human resource management activities of OCHA did not fully meet the needs on the ground, especially after the emergency phase, limiting the effectiveness of its operations. Overall, 56 per cent of the posts were vacant, including 17 per cent of the head of office positions, as at the end of June 2005. Also, staff turnover was very high, with 36 per cent of the posts turning over one or more staff during a recent six-month period, causing instability in OCHA operations in Indonesia. In Banda Aceh, the Deputy Humanitarian Coordinator post had been vacant since the end of May 2005 at the time of the audit by OIOS in July 2005. Forty per cent of the

posts in Banda Aceh were vacant and had been so for two months or more, and 40 per cent of the posts had turned over two or more times in the last six months.

35. There were serious problems in coordination between OCHA and the Department of Safety and Security personnel at Banda Aceh regarding security matters. The Department's personnel deployed to Banda Aceh changed constantly, and there was disagreement over sharing the minutes of the security meetings of OCHA in Jakarta with the Banda Aceh security team.

36. OCHA has implemented 41 of the 46 recommendations made by OIOS regarding operations in Indonesia. Four recommendations were closed because the responsibilities of OCHA had been reduced in Indonesia and the functions were no longer relevant to its operations. One recommendation was still the process of implementation.

B. Audit of the Office of the United Nations High Commissioner for Refugees in Indonesia

37. In August and September 2005, OIOS conducted an audit of the emergency relief programme implemented by UNHCR in Indonesia, focusing on rehabilitation and reconstruction activities following the tsunami. The audit evaluated the preparedness of UNHCR for the tsunami relief operation, and assessed the adequacy and effectiveness of internal controls.

38. OIOS found that the overall strategy for the UNHCR tsunami relief project was still in a draft form, and did not tackle how the main risks would be addressed. OIOS recommended that the tsunami project strategy be updated and finalized. Programme documents of the UNHCR tsunami relief project had not been regularly updated to account for the changing environment and emerging risks. For example, the documents included an estimated target of completing 1,022 houses in six months. That could not be achieved and was unrealistic. OIOS recommended that the project documents be revised to be more realistic and achievable. OIOS also found that procurement procedures were not consistently applied to ensure the best value for money.

C. Risk assessment of the Office of the United Nations High Commissioner for Refugees in Sri Lanka

39. In conjunction with the Office of the Inspector-General of UNHCR, OIOS conducted a risk assessment of the emergency relief programme of UNHCR in Sri Lanka for the tsunami in May 2005. In addition to identifying major risks, the review evaluated the effectiveness of control systems and the adequacy of efforts to address the increased risks and vulnerabilities facing women as a result of the tsunami.

40. Time was a limiting factor in formulating the UNHCR strategy for the tsunami project in Sri Lanka, and some of the objectives appeared to have been too ambitious. It was unlikely that the objectives and their expected impact could have been achieved within the timelines established. OIOS recommended action to refocus and revise the programme strategy to ensure that it was more realistic and achievable, and such action was taken. Also, at the time of the review, because of

the slow rate of implementation, there was a risk that once the transitional shelters were erected they would no longer be needed. Some 25 per cent of the registered beneficiaries were already being housed in shelters erected by NGOs. OIOS recommended systematic consideration of the changing environment and the projects implemented by other actors, and action was taken by UNHCR. The inordinately long time taken to finalize the shelter design, compounded by the indecisiveness of UNHCR in Sri Lanka as to the quality and quantity of the goods to be procured, delayed the implementation of the transitional shelter programme, which has now been completed.

41. At the height of the emergency, there was a lack of coordination among the main actors. UNHCR pledged 10,000 tents, but by the time they arrived most of them were no longer needed. OIOS recommended redeployment of the tents to other field operations, and action was taken by UNHCR, thereby obtaining a savings of $390,000.

42. UNHCR agreed to serve as the lead agency for coordinating the transitional shelter programme. However, adequate staff resources were not made available from the outset to ensure that that responsibility was carried out effectively, although it was requested by the head of office. Sufficient staff were not assigned until mid-May 2005, which was too late and affected the ability of UNHCR to effectively coordinate the activities. Due to the rotation of managers, leadership and direction were lacking during the first few months of the operation. That in turn affected relations between UNHCR and external partners and donors, who commented on the lack of leadership and indicated that a new face was constantly representing or heading UNHCR. UNHCR in Sri Lanka has implemented all five of the OIOS recommendations.

VII. Recommendations

43. OIOS is issuing three recommendations to strengthen management, oversight, internal control and risk management of tsunami programmes.

Recommendation 1

44. OIOS recommends that the Secretary-General create an institutionalized framework for management and oversight for future complex inter-agency programmes which involve the operations of more than one participating entity of the United Nations system, whether they be funded by multiple or single donors (AN/2006/590/06/001).

Recommendation 2

45. OIOS recommends that the Secretary-General, in collaboration with the heads of funds, programmes and specialized agencies, formulate an internal control policy document for inter-agency activities, including the requirements for joint oversight, with respect to tsunami relief operations, and submit it to the General Assembly and the Economic and Social Council for endorsement (AN/2006/590/06/002).

Recommendation 3

46. OIOS recommends that the Secretary-General, in collaboration with heads of funds, programmes and specialized agencies, establish an integrated risk management framework for complex inter-agency programmes such as tsunami relief operations, involving multiple participating entities of the United Nations system (AN/2006/590/06/003).

47. The Deputy Secretary-General, on behalf of the Secretary-General, did not specifically comment on the recommendations. OCHA advised that it had no comments on the present report.

(*Signed*) Inga-Britt **Ahlenius**
Under-Secretary-General for Internal Oversight Services